INTRODUCTION OF MARKET DISCOUNT BILL

HON. E. CLAY SHAW, JR.

OF FLORIDA

IN THE HOUSE OF REPRESENTATIVES

Thursday, February 9, 1995

Mr. SHAW. Mr. Speaker, I have joined with my colleague, BEN CARDIN, to reintroduce legislation that would restore the capital gains tax treatment on the sale of market discount bonds. As a result of an amendment contained in the Omnibus Budget Reconciliation Act of 1993, the gain is taxed at the ordinary income rate rather than at the capital gains rate. This bill was originally introduced last June in response to the rise in interest rates that had precipitated, among other things, a noticeable loss of market liquidity for market discount bonds. Since that time, interest rates have continued to climb and there has been a corresponding increase in the volume of market discount bonds in the marketplace. The restoration of capital gains tax treatment for market discount bonds is an appropriate and timely way to reduce the borrowing costs to State and local issuers by improving market liquidity.

As a former mayor, I have a tremendous appreciation for tax-exempt municipal financing and the role bonds play in meeting public needs. In the State of Florida last year, there were over $7.6 billion in long-term bonds issued. Infrastructure requirements like secondary roads, bridges, water and sewer systems, airports, and public schools are all financed and built by State and local governments using tax-exempt municipal bonds. Bonds are used to leverage and argument Federal construction grants, revolving loans and other direct assistance programs. I believe tax-exempt bonds are an important tool in empowering States and localities to address public needs and consistent with the message of ''New Federalism'' contained in the Contract With America.

Prior to 1993, the proceeds from the sale of a bond purchased at discount were treated as capital gains. The 1993 Budget Reconciliation Act contained the provision that amended the tax treatment of municipal securities purchased at a market discount. As a result, when an investor sells market discount bonds, they now pay the ordinary income tax rates of up to 39.6 percent rather than the maximum capital gains rate of 28 percent.

The sharp rise in interest rates, beginning last February, lead to a dramatic increase in the amount of market discount bonds. Market discount generally exists when a bond is purchased on the secondary market at a price below par, or, in the case of bonds with an original issue discount, below the adjusted issue price. Market discount is the difference between the purchase price of a bond and its stated redemption price at maturity or its adjusted issue price. Since rules took effect in 1993, demand for discount bonds in the secondary market has suffered.

The change in the market discount rules adds significant complexity to reporting by bond dealers. For example, a single zero-coupon bond purchased at a discount could generate tax-exempt income, ordinary income, and a capital gain. Such complicated tax treatment poses problems for dealers and funds which must issue summary reports to the IRS and investors. The market discount rules also have a very real negative effect on market liquidity. For instance, certain tax-exempt mutual funds have simply stopped buying discounted bonds altogether.

In addition, the new market discount rules could result in higher capital costs for State and local municipal bond issuers, raise extremely complex financial consideration that repel investors, and provide little or no revenue gain to the Federal Government. For all of these reasons, I believe repeal of the new market discount rules is appropriate. Such a change would be consistent with efforts for overall capital gains reform.

I urge all of my colleagues to cosponsor this important municipal bond legislation.

NATIONAL LABORATORY EMPLOYEES INCENTIVE

HON. BILL RICHARDSON

OF NEW MEXICO

IN THE HOUSE OF REPRESENTATIVES

Thursday, February 9, 1995

Mr. RICHARDSON. Mr. Speaker, I rise today to introduce legislation to provide a retirement incentive to national laboratory employees who are members of the public employees retirement system [PERS] of California.

These 450 men and women have each given over 30 years of service to the Department of Energy [DOE] and yet they were not offered a retirement incentive when DOE began downsizing staff at national laboratories administrated by the University of California.

The DOE funds three national laboratories through the University of California. From 1940 until October 1, 1961, national laboratory employees enrolled in the PERS of California. In 1961, the University of California established its own retirement system. As a result, employees hired at the national laboratories after October 1, 1961, were enrolled in the University of California Retirement Program [UCRP]. When the University of California established the new retirement system, national laboratory employees were given the option to transfer to the UCRP or remain with the PERS. Most chose to stay with the PERS because they had already accrued benefits in that system.

In 1993 when DOE began downsizing, national laboratory employees with UCRP were offered a retirement incentive package that added 3 years to retirement age, 3 years service credit, and 3 months pay. National laboratory employees with the PERS were not offered any incentive. The result of the University of California's decision to offer retirement incentives only to employees with UCRP was discriminatory against the most senior employees at the labs who were with the PERS of California.

As with any retirement incentive, this bill would have initial costs, but would generate millions of dollars in salary savings each year thereafter. For an initial investment of $14 million we could achieve $32 million in national laboratory salaries savings in the first year alone.

I urge my colleagues to join me in supporting this legislation which brings equality to the scientists and employees of our national laboratories and achieves significant downsizing at the DOE.

ECONOMIC CONDITIONS IN ISRAEL AND EGYPT

HON. LEE H. HAMILTON

OF INDIANA

IN THE HOUSE OF REPRESENTATIVES

Thursday, February 9, 1995

Mr. HAMILTON. Mr. Speaker, the United States has a strong interest in the economic conditions and government policies aimed at promoting economic reform in Egypt and Israel. Every year since the signing of the Israeli-Egyptian Peace Treaty in 1979, the Congress has voted to provide these two countries with substantial economic and military assistance. Last year, Congress supported the administration's fiscal year 1995 request of assistance totaling over $5.2 billion. The administration had made the same assistance request to Congress for fiscal year 1996.

Given the importance of the economic conditions in Egypt and Israel to the United States, I would like to place in the CONGRESSIONAL RECORD the summary of USAID's Report on ''Economic Conditions in Egypt, 1993–94'' and the economic overview of the State Department's fiscal year 1994 Report to Congress on the ''Loan Guarantees to Israel Program and Economic Conditions in Israel.''

REPORT ON ECONOMIC CONDITIONS IN EGYPT, 1993–94 SUMMARY

During the past three years, Egypt has made progress implementing macroeconomic stabilization measures, such as reducing fiscal and current account deficits and liberalizing interest rates and foreign exchange regulations. It has made much less progress on the broader structural reforms necessary to promote increased economic efficiency and growth. The resultant slow economic growth has a number of explanations. Some reasons are temporary and although critical, should become less constraining over time. These factors include the sharp decline in Egypt's government spending over the last four years, high real interest rates, an overvalued exchange rate, and sluggish foreign demand for Egyptian products due to the uncompetitiveness of the Egyptian private sector.

Unfortunately, other constraints to growth are structural and cannot be changed quickly. Egypt adopted a socialistic and inward-looking approach to economic development in the 1950s. as a result, the country is burdened with public sector enterprises which are inefficient, unprofitable, and contribute very little to output. Millions of Egyptians have jobs with the Government or parastatals which they believe are theirs for life, regardless of the productiveness of the job. Legal, regulatory, and bureaucratic systems restrict business expansion and impose unnecessary costs on business. The judicial process is time-consuming and expensive. High levels of protection hinder international trade and competitiveness. The tax administration is cumbersome. Long term financing at reasonable rates is scarce. Government owned firms dominate the business sector, and they have proven incapable of generating jobs for the Egyptians entering the labor force each year. At this point in time, the private sector is too small to provide jobs for the new entrants to the labor markets.